

Union Calendar No. 207

104TH CONGRESS
1ST Session

H. R. 2029

[Report No. 104-421]

A BILL

To amend the Farm Credit Act of 1971 to provide regulatory relief.

DECEMBER 18 (legislative day, DECEMBER 15), 1995

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

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To amend the Farm Credit Act of 1971 to provide regulatory relief.

IN THE HOUSE OF REPRESENTATIVES

JULY 13, 1995

Mr. ALLARD (for himself, Mr. JOHNSON of South Dakota, and Mr. RAHALL),
introduced the following bill; which was referred to the Committee on
Agriculture

DECEMBER 18 (legislative day, DECEMBER 15), 1995

Additional sponsors: Mr. HOLDEN, Mr. BALDACCI, Mrs. CHENOWETH, Mr.
POMEROY, Mr. EWING, Mr. MINGE, Mr. COOLEY, Mr. LAHOOD, Mr. BLI-
LEY, Mr. STENHOLM, Mr. LUCAS, Mr. CRAPO, Mr. LEWIS of Kentucky,
Mr. WHITFIELD, Mr. MCHUGH, Mr. BONIOR, Ms. MCKINNEY, Mr.
CHAMBLISS, Mr. TAYLOR of North Carolina, Mr. BOEHLERT, Mr.
CONDIT, Mr. KINGSTON, Mr. SPRATT, Mr. POMBO, Mr. WALSH, Mr.
NEAL of Massachusetts, Mr. HINCHEY, Mr. HERGER, and Mr. OLVER

DECEMBER 18 (legislative day, DECEMBER 15), 1995

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[Strike out all after the enacting clause and insert the part printed in *italie*]

[For text of introduced bill, see copy of bill as introduced on July 13, 1995]

A BILL

To amend the Farm Credit Act of 1971 to provide regulatory
relief.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) *SHORT TITLE.*—*This Act may be cited as the*
 5 *“Farm Credit System Regulatory Relief Act of 1995”.*

6 (b) *TABLE OF CONTENTS.*—*The table of contents of this*
 7 *Act is as follows:*

Sec. 1. Short title; table of contents.

Sec. 2. References.

Sec. 3. Regulatory review.

Sec. 4. Examination of Farm Credit System institutions.

Sec. 5. Farm Credit Insurance Fund operations.

Sec. 6. Powers with respect to troubled insured System banks.

Sec. 7. Farm Credit System Insurance Corporation board of directors.

Sec. 8. Conservatorship and receiverships.

Sec. 9. Oversight and regulatory actions by the Farm Credit System Insurance Corporation.

Sec. 10. Formation of administrative service entities.

Sec. 11. Requirements for loans sold into the secondary market.

Sec. 12. Removal of antiquated and unnecessary paperwork requirements.

Sec. 13. Removal of government certification requirement for certain private sector financing.

Sec. 14. Reform of regulatory limitations on the dividend, member business, and voting practices of eligible farmer-owned cooperatives.

Sec. 15. Extension of interest rate reduction program for 5 years.

8 **SEC. 2. REFERENCES.**

9 *Except as otherwise expressly provided, wherever in*
 10 *this Act an amendment or repeal is expressed in terms of*
 11 *an amendment to, or repeal of, a section or other provision,*
 12 *the reference shall be considered to be made to a section or*
 13 *other provision of the Farm Credit Act of 1971.*

14 **SEC. 3. REGULATORY REVIEW.**

15 (a) *FINDINGS.*—*The Congress finds that—*

16 (1) *the Farm Credit Administration, in its role*
 17 *as an arms-length, safety and soundness regulator,*

6 (3) such cost savings ultimately benefit the Na-
7 tion's farmers, ranchers, agricultural cooperatives,
8 and rural residents.

15 *SEC. 4. EXAMINATION OF FARM CREDIT SYSTEM INSTITU-*
16 *TIONS.*

20 SEC. 5. FARM CREDIT INSURANCE FUND OPERATIONS.

22 (1) IN GENERAL.—Section 5.55(a) (12 U.S.C.
23 2277a-4(a)) is amended—

24 (A) in paragraph (1), by striking “Until
25 the aggregate of amounts in the Farm Credit In-

1 *surance Fund exceeds the secure base amount,*
 2 *the annual premium due from any insured Sys-*
 3 *tem bank for any calendar year shall” and in-*
 4 *serting “If, at the end of any calendar year, the*
 5 *aggregate of the amounts in the Farm Credit In-*
 6 *surance Fund does not exceed the secure base*
 7 *amount, the annual premium due from any in-*
 8 *sured System bank for that calendar year shall,*
 9 *subject to paragraph (2),”; and*

10 *(B) by redesignating paragraph (2) as*
 11 *paragraph (3) and inserting after paragraph (1)*
 12 *the following:*

13 *“(2) REDUCED PREMIUMS.—The Corporation, in*
 14 *its sole discretion, may reduce, by a percentage uni-*
 15 *formly applied to all insured System banks, the an-*
 16 *nual premium due from each insured System bank*
 17 *during any calendar year, as determined under para-*
 18 *graph (1).”.*

19 *(2) CONFORMING AMENDMENTS.—*

20 *(A) SECTION 5.55(b).—Section 5.55(b) (12*
 21 *U.S.C. 2277a–4(b)) is amended—*

22 *(i) by striking “Insurance Fund” each*
 23 *place such term appears and inserting*
 24 *“Farm Credit Insurance Fund”;*

1 (ii) by striking “for the following cal-
2 endar year”; and

3 (iii) by striking “subsection (a)” and
4 inserting “subsection (a)(1)”.

5 (B) SECTION 5.56(a).—Section 5.56(a) (12
6 U.S.C. 2277a–5(a)) is amended in each of para-
7 graphs (2) and (3) by striking “section
8 5.55(a)(2)” and inserting “section 5.55(a)(3)”.

9 (C) SECTION 1.12(b).—Section 1.12(b) (12
10 U.S.C. 2020(b)) is amended—

11 (i) in paragraph (1), by inserting “(as
12 defined in section 5.55(a)(3))” after “gov-
13 ernment-guaranteed loans”; and

14 (ii) in paragraph (3), by inserting
15 “(as so defined)” after “government-guaran-
16 teed loans” each place such term appears.

17 (b) TECHNICAL AMENDMENT.—Section 5.55(d) (12
18 U.S.C. 2277a–4(d)) is amended—

19 (1) in the matter preceding paragraph (1)—

20 (A) by striking “and (c)” and inserting “,
21 (c), and (e)”; and

22 (B) by striking “a Farm Credit Bank” and
23 inserting “an insured System bank”; and

1 (2) by striking “Farm Credit Bank” each subse-
 2 quent place such term appears and inserting “insured
 3 System bank”.

4 (c) ALLOCATION TO INSURED SYSTEM BANKS AND
 5 OTHER SYSTEM INSTITUTIONS OF EXCESS AMOUNTS IN
 6 THE FARM CREDIT INSURANCE FUND.—Section 5.55 (12
 7 U.S.C. 2277a–4) is amended by adding at the end the fol-
 8 lowing:

9 “(e) ALLOCATION TO SYSTEM INSTITUTIONS OF EX-
 10 CESS RESERVES.—

11 “(1) ESTABLISHMENT OF ALLOCATED INSURANCE
 12 RESERVES ACCOUNTS.—There is hereby established
 13 within the Farm Credit Insurance Fund—

14 “(A) for each insured System bank; and

15 “(B) subject to paragraph (5)(C), for all
 16 holders, in the aggregate, of Financial Assistance
 17 Corporation stock,

18 an Allocated Insurance Reserves Account. Amounts in
 19 any Allocated Insurance Reserves Account shall be
 20 considered to be part of the Farm Credit Insurance
 21 Fund.

22 “(2) ANNUAL ALLOCATIONS.—If, at the end of
 23 any calendar year, the aggregate of the amounts in
 24 the Farm Credit Insurance Fund exceeds the average
 25 secure base amount for the calendar year (as cal-

culated on an average daily balance basis), the Corporation shall allocate to the Allocated Insurance Reserves Accounts such excess amount less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year.

“(3) *ALLOCATION FORMULA.*—From the total amount required to be allocated at the end of a calendar year pursuant to paragraph (2)—

“(A) 10 percent of such total amount shall be credited to the Allocated Insurance Reserves Account established under paragraph (1)(B), subject to paragraph (5)(C); and

“(B) there shall be credited to the Allocated Insurance Reserves Account of each insured System bank an amount that bears the same ratio to such total amount (less any reduction under subparagraph (A)) as the average principal outstanding for the 3-year period ending with the end of such calendar year on loans made by the bank that are in accrual status bears to the average principal outstanding for such 3-year period on loans made by all insured System banks that are in accrual status (excluding, in each case,

1 the guaranteed portions of government-guaran-
2 teed loans described in subsection (a)(1)(C)).

3 “(4) *USE OF FUNDS IN ALLOCATED INSURANCE*
4 *RESERVES ACCOUNTS.*—*To the extent that the sum of*
5 *the operating expenses of the Corporation and the in-*
6 *surance obligations of the Corporation for a calendar*
7 *year exceeds the estimated sum described in para-*
8 *graph (2) for the calendar year, the Corporation shall*
9 *cover such expenses and obligations by reducing each*
10 *Allocated Insurance Reserves Account by the same*
11 *proportion and expending the amounts so obtained,*
12 *before expending other monies in the Fund.*

13 “(5) *OTHER DISPOSITION OF ACCOUNT FUNDS.*—

14 “(A) *IN GENERAL.*—*Beginning in calendar*
15 *year 2003, if the aggregate of the amounts in the*
16 *Farm Credit Insurance Fund exceeds the secure*
17 *base amount, the Corporation may—*

18 “(i) *subject to subparagraph (D), pay*
19 *to each insured System bank, in a manner*
20 *determined by the Corporation, an amount*
21 *equal to the lesser of—*

22 “(I) *20 percent of the balance in*
23 *the bank’s Allocated Insurance Reserves*
24 *Account as of the preceding December*
25 *31; or*

1 “(II) 20 percent of the balance in
2 the bank’s Allocated Insurance Reserves
3 Account on the date of payment; and

4 “(ii) subject to subparagraphs (C) and
5 (E), pay to each System bank and associa-
6 tion holding Financial Assistance Corpora-
7 tion stock its proportionate share, deter-
8 mined by dividing the number of shares of
9 Financial Assistance Corporation stock held
10 by such institution by the total number of
11 shares of Financial Assistance Corporation
12 stock outstanding, of the lesser of—

13 “(I) 20 percent of the balance in
14 the Allocated Insurance Reserves Ac-
15 count established under paragraph
16 (1)(B) as of the preceding December
17 31; or

18 “(II) 20 percent of the balance in
19 the Allocated Insurance Reserves Ac-
20 count established under paragraph
21 (1)(B) on the date of the payment.

22 “(B) *AUTHORITY TO ELIMINATE OR REDUCE*
23 *PAYMENTS.*—The Corporation may eliminate or
24 reduce payments under subparagraph (A) if the
25 Corporation determines, in its sole discretion,

1 *that such payments, or other circumstances that*
 2 *might require use of the Farm Credit Insurance*
 3 *Fund, could cause the amount in the Farm Cred-*
 4 *it Insurance Fund during that calendar year to*
 5 *be less than the secure base amount.*

6 *“(C) REIMBURSEMENT FOR FINANCIAL AS-*
 7 *SISTANCE CORPORATION STOCK.—*

8 *“(i) SUFFICIENT FUNDING.—Notwith-*
 9 *standing paragraph (3)(A), upon provision*
 10 *by the Corporation for the accumulation in*
 11 *the account established under paragraph*
 12 *(1)(B) of funds in an amount equal to \$56*
 13 *million, the Corporation shall not allocate*
 14 *any further funds to such account except to*
 15 *replenish such account in the event that*
 16 *funds are diminished below such amount by*
 17 *the Corporation pursuant to paragraph (4).*

18 *“(ii) WIND DOWN AND TERMINATION.—*

19 *“(I) FINAL DISBURSEMENTS.—*

20 *Upon disbursement of a total of \$53*
 21 *million from such Allocated Insurance*
 22 *Reserves Account, the Corporation shall*
 23 *disburse the remaining amounts in*
 24 *such account, as determined under*
 25 *paragraph (5)(A)(ii), without regard*

1 to the percentage limitation in
2 subclauses (I) and (II) thereof.

3 “(II) TERMINATION OF AC-
4 COUNT.—Upon disbursement of a total
5 of \$56 million from such Allocated In-
6 surance Reserves Account established
7 under paragraph (1)(B), the Corpora-
8 tion shall close the Allocated Insurance
9 Reserves Account established under
10 paragraph (1)(B) and transfer any re-
11 maining funds in such Account to the
12 remaining Allocated Insurance Re-
13 serves Accounts in accordance with the
14 formula in paragraph (3)(B) for the
15 calendar year in which the transfer oc-
16 curs.

17 “(D) DISTRIBUTION OF PAYMENTS RE-
18 CEIVED.—Within 60 days after receipt of a pay-
19 ment made under subparagraph (5)(A)(i), each
20 insured System bank, in consultation with its af-
21 filiated associations, and taking into account the
22 direct or indirect payment of insurance pre-
23 miums by such associations, shall develop and
24 implement an equitable plan to distribute pay-

1 ments received pursuant to subparagraph
2 (5)(A)(i) among the bank and its associations.

3 “(E) *EXCEPTION FOR PREVIOUSLY REIM-*
4 *BURSED ASSOCIATIONS.*—For purposes of sub-
5 paragraph (5)(A)(ii), in any Farm Credit Dis-
6 trict in which the funding bank has reimbursed
7 one or more of its affiliated associations for the
8 previously unreimbursed portion of the Finan-
9 cial Assistance stock held by such associations,
10 the funding bank shall be deemed to be the holder
11 of the shares of Financial Assistance Corporation
12 stock for which it has provided such reimburse-
13 ment.”.

14 **SEC. 6. POWERS WITH RESPECT TO TROUBLED INSURED**
15 **SYSTEM BANKS.**

16 (a) *LEAST-COST RESOLUTION.*—Section 5.61(a)(3)
17 (12 U.S.C. 2277a–10(a)(3)) is amended—

18 (1) by redesignating subparagraph (B) as sub-
19 paragraph (F); and

20 (2) by striking subparagraph (A) and inserting
21 the following:

22 “(A) *LEAST-COST RESOLUTION.*—Assistance
23 may not be provided to an insured System bank
24 under this subsection unless the total amount of
25 such assistance is the least costly to the Farm

1 *Credit Insurance Fund of all possible alter-*
2 *natives available to the Corporation, including*
3 *liquidation of the bank (including paying the in-*
4 *sured obligations issued on behalf of the bank).*
5 *Before making a least-cost determination under*
6 *this subparagraph, the Corporation shall accord*
7 *such other insured System banks as the Corpora-*
8 *tion determines appropriate the opportunity to*
9 *submit information relating to such determina-*
10 *tion.*

11 “(B) *PROCEDURAL RULES.*—*In determining*
12 *the least costly alternative under subparagraph*
13 *(A), the Corporation shall—*

14 “(i) *evaluate alternatives on a present-*
15 *value basis, using a reasonable discount*
16 *rate;*

17 “(ii) *document that evaluation and the*
18 *assumptions on which the evaluation is*
19 *based; and*

20 “(iii) *retain the documentation for not*
21 *less than 5 years.*

22 “(C) *TIME OF DETERMINATION.*—

23 “(i) *COST OF ASSISTANCE.*—*For pur-*
24 *poses of this subsection, the determination of*
25 *the costs of providing any assistance under*

1 *any provision of this section with respect to*
2 *any insured System bank shall be made as*
3 *of the date on which the Corporation makes*
4 *the determination to provide such assistance*
5 *to the institution under this section.*

6 “(ii) *COST OF LIQUIDATION.—For pur-*
7 *poses of this subsection, the determination of*
8 *the costs of liquidation of any insured Sys-*
9 *tem bank shall be made as of the earliest*
10 *of—*

11 “(I) *the date on which a conserva-*
12 *tor is appointed for the bank;*

13 “(II) *the date on which a receiver*
14 *is appointed for the bank; or*

15 “(III) *the date on which the Cor-*
16 *poration makes any determination to*
17 *provide any assistance under this sec-*
18 *tion with respect to the bank.*

19 “(D) *EVALUATION OF MANAGEMENT.—Be-*
20 *fore providing any assistance under paragraph*
21 *(1), the Corporation shall evaluate the adequacy*
22 *of the managerial resources of the bank. The con-*
23 *tinued service of any director or senior ranking*
24 *officer who serves in a policymaking role for the*
25 *assisted bank, as determined by the Corporation,*

1 *shall be subject to approval by the Corporation*
 2 *as a condition of such assistance.*

3 “(E) *DISCRETIONARY DETERMINATION.*—
 4 *Any determination that the Corporation makes*
 5 *under this paragraph shall be in the sole discre-*
 6 *tion of the Corporation.”.*

7 (b) *CONFORMING AMENDMENTS.*—*Section 5.61(a) (12*
 8 *U.S.C. 2277a–10(a)) is amended—*

9 (1) *in paragraph (1), by striking “IN GENERAL”*
 10 *and inserting “STAND-ALONE ASSISTANCE”; and*

11 (2) *in paragraph (2)—*

12 (A) *by striking “ENUMERATED POWERS”*
 13 *and inserting “FACILITATION OF MERGERS OR*
 14 *CONSOLIDATION”; and*

15 (B) *in subparagraph (A), by striking “FA-*
 16 *CILITATION OF MERGERS OR CONSOLIDATION”*
 17 *and inserting “IN GENERAL”.*

18 ***SEC. 7. FARM CREDIT SYSTEM INSURANCE CORPORATION***

19 ***BOARD OF DIRECTORS.***

20 *Section 201 of the Farm Credit Banks and Associa-*
 21 *tions Safety and Soundness Act of 1992 (106 Stat. 4104–*
 22 *4105) is repealed.*

1 **SEC. 8. CONSERVATORSHIP AND RECEIVERSHIPS.**

2 (a) *INCLUSION AMONG GENERAL CORPORATE POW-*
 3 *ERS.—Section 5.58(9) (12 U.S.C. 2277a–7(9)) is amended*
 4 *to read as follows:*

5 “(9) *CONSERVATOR OR RECEIVER.—The Cor-*
 6 *poration may act as conservator or receiver.”.*

7 (b) *CONFORMING AMENDMENTS.—Section 5.51 (12*
 8 *U.S.C. 2277a) is amended by striking paragraph (5) and*
 9 *redesignating paragraph (6) as paragraph (5).*

10 **SEC. 9. OVERSIGHT AND REGULATORY ACTIONS BY THE**
 11 **FARM CREDIT SYSTEM INSURANCE CORPORA-**
 12 **TION.**

13 *Part E of title V of the Farm Credit Act of 1971 (12*
 14 *U.S.C. 2277–2277a–14) is amended by inserting after sec-*
 15 *tion 5.61 the following:*

16 **“SEC. 5.61A. AUTHORITY TO REGULATE GOLDEN PARA-**
 17 **CHUTE AND INDEMNIFICATION PAYMENTS.**

18 “(a) *IN GENERAL.—The Corporation may prohibit or*
 19 *limit, by regulation or order, any golden parachute pay-*
 20 *ment or indemnification payment by a Farm Credit Sys-*
 21 *tem institution (including the Federal Agricultural Mort-*
 22 *gage Corporation and any conservator or receiver for the*
 23 *Federal Agricultural Mortgage Corporation) in troubled*
 24 *condition (as defined in regulations issued by the Corpora-*
 25 *tion).*

1 “(b) *FACTORS TO BE TAKEN INTO ACCOUNT.—The*
2 *Corporation shall prescribe, by regulation, the factors to be*
3 *considered by the Corporation in taking any action under*
4 *subsection (a), which may include the following:*

5 “(1) *Whether there is a reasonable basis to be-*
6 *lieve that the institution-related party has committed*
7 *any fraudulent act or omission, breach of trust or fi-*
8 *duciary duty, or insider abuse with regard to the*
9 *Farm Credit System institution involved that has*
10 *had a material effect on the financial condition of the*
11 *institution.*

12 “(2) *Whether there is a reasonable basis to be-*
13 *lieve that the institution-related party is substantially*
14 *responsible for the insolvency of the Farm Credit Sys-*
15 *tem institution, the appointment of a conservator or*
16 *receiver for the institution, or the institution’s trou-*
17 *bled condition (as defined in regulations prescribed by*
18 *the Corporation).*

19 “(3) *Whether there is a reasonable basis to be-*
20 *lieve that the institution-related party has materially*
21 *violated any applicable law or regulation that has*
22 *had a material effect on the financial condition of the*
23 *institution.*

1 “(4) Whether there is a reasonable basis to be-
2 lieve that the institution-related party has violated or
3 conspired to violate—

4 “(A) section 215, 657, 1006, 1014, or 1344
5 of title 18, United States Code; or

6 “(B) section 1341 or 1343 of title 18,
7 United States Code, affecting a Farm Credit
8 System institution.

9 “(5) Whether the institution-related party was in
10 a position of managerial or fiduciary responsibility.

11 “(6) The length of time that the party was relat-
12 ed with the Farm Credit System institution and the
13 degree to which—

14 “(A) the payment reasonably reflects com-
15 pensation earned over the period of employment;
16 and

17 “(B) the compensation involved represents a
18 reasonable payment for services rendered.

19 “(c) CERTAIN PAYMENTS PROHIBITED.—No Farm
20 Credit System institution may prepay the salary or any
21 liability or legal expense of any institution-related party
22 if such payment—

23 “(1) is made in contemplation of the insolvency
24 of such institution or after the commission of an act
25 of insolvency; and

1 “(2) is made with a view to, or has the result
2 of—

3 “(A) preventing the proper application of
4 the assets of the institution to creditors; or

5 “(B) preferring one creditor over another.

6 “(d) *GOLDEN PARACHUTE PAYMENT DEFINED.*—As
7 used in this section:

8 “(1) *IN GENERAL.*—The term ‘golden parachute
9 payment’ means any payment (or any agreement to
10 make any payment) in the nature of compensation by
11 any Farm Credit System institution for the benefit
12 of any institution-related party under an obligation
13 of the institution that—

14 “(A) is contingent on the termination of the
15 party’s relationship with the institution; and

16 “(B) is received on or after the date on
17 which—

18 “(i) the institution is insolvent;

19 “(ii) any conservator or receiver is ap-
20 pointed for the institution;

21 “(iii) the Farm Credit Administration
22 has assigned the institution a composite
23 CAMEL rating of 4 or 5 under the Farm
24 Credit Administration Rating System, or
25 an equivalent rating; or

1 “(iv) the Corporation otherwise deter-
2 mines that the institution is in a troubled
3 condition (as defined in regulations issued
4 by the Corporation).

5 “(2) CERTAIN PAYMENTS IN CONTEMPLATION OF
6 AN EVENT.—Any payment that would be a golden
7 parachute payment but for the fact that the payment
8 was made before the date referred to in paragraph
9 (1)(B) shall be treated as a golden parachute payment
10 if the payment was made in contemplation of the oc-
11 currence of an event described in any clause of such
12 paragraph.

13 “(3) CERTAIN PAYMENTS NOT INCLUDED.—The
14 term ‘golden parachute payment’ shall not include—

15 “(A) any payment made under a retirement
16 plan that is qualified (or is intended to be quali-
17 fied) under section 401 of the Internal Revenue
18 Code of 1986 or other nondiscriminatory benefit
19 plan;

20 “(B) any payment made under a bona fide
21 deferred compensation plan or arrangement that
22 the Corporation determines, by regulation or
23 order, to be permissible; or

1 “(C) *any payment made by reason of the*
 2 *death or disability of an institution-related*
 3 *party.*

4 “(e) *OTHER DEFINITIONS.—As used in this section:*

5 “(1) *INDEMNIFICATION PAYMENT.—The term ‘in-*
 6 *demnification payment’ means any payment (or any*
 7 *agreement to make any payment) by any Farm Cred-*
 8 *it System institution for the benefit of any person*
 9 *who is or was an institution-related party, to pay or*
 10 *reimburse the person for any liability or legal expense*
 11 *with regard to any administrative proceeding or civil*
 12 *action instituted by the Farm Credit Administration*
 13 *that results in a final order under which the person—*

14 “(A) *is assessed a civil money penalty; or*

15 “(B) *is removed or prohibited from partici-*
 16 *pating in the conduct of the affairs of the insti-*
 17 *tution.*

18 “(2) *LIABILITY OR LEGAL EXPENSE.—The term*
 19 *‘liability or legal expense’ means—*

20 “(A) *any legal or other professional expense*
 21 *incurred in connection with any claim, proceed-*
 22 *ing, or action;*

23 “(B) *the amount of, and any cost incurred*
 24 *in connection with, any settlement of any claim,*
 25 *proceeding, or action; and*

1 “(C) the amount of, and any cost incurred
2 in connection with, any judgment or penalty im-
3 posed with respect to any claim, proceeding, or
4 action.

5 “(3) PAYMENT.—The term ‘payment’ means—

6 “(A) any direct or indirect transfer of any
7 funds or any asset; and

8 “(B) any segregation of any funds or assets
9 for the purpose of making, or under an agree-
10 ment to make, any payment after the date on
11 which such funds or assets are segregated, with-
12 out regard to whether the obligation to make
13 such payment is contingent on—

14 “(i) the determination, after such date,
15 of the liability for the payment of such
16 amount; or

17 “(ii) the liquidation, after such date, of
18 the amount of such payment.

19 “(4) INSTITUTION-RELATED PARTY.—The term
20 ‘institution-related party’ means—

21 “(A) any director, officer, employee, or
22 agent for a Farm Credit System institution;

23 “(B) any stockholder (other than another
24 Farm Credit System institution), consultant,
25 joint venture partner, or any other person deter-

1 *mined by the Farm Credit Administration to be*
 2 *a participant in the conduct of the affairs of a*
 3 *Farm Credit System institution;*

4 “(C) *any independent contractor (including*
 5 *any attorney, appraiser, or accountant) who*
 6 *knowingly or recklessly participates in any vio-*
 7 *lation of any law or regulation, any breach of fi-*
 8 *duciary duty, or any unsafe or unsound practice*
 9 *that caused or is likely to cause more than a*
 10 *minimal financial loss to, or a significant ad-*
 11 *verse effect on, the Farm Credit System institu-*
 12 *tion; or*

13 “(D) *any receiver or conservator of a Farm*
 14 *Credit System institution.*

15 “(f) *SPECIAL RULE.—No provision of this section may*
 16 *be construed as prohibiting any Farm Credit System insti-*
 17 *tution from purchasing any commercial insurance policy*
 18 *or fidelity bond, except that such insurance policy or bond*
 19 *shall not cover any legal or liability expense of the institu-*
 20 *tion that is described in subsection (e)(1).*

21 “(g) *SPECIAL RULE REGARDING THE FARM CREDIT*
 22 *ADMINISTRATION.—No provision of this section may be con-*
 23 *strued as limiting the powers, functions, or responsibilities*
 24 *of the Farm Credit Administration.”.*

1 **SEC. 10. FORMATION OF ADMINISTRATIVE SERVICE ENTI-**
 2 **TIES.**

3 *Part E of title IV (12 U.S.C. 2211–2214) is amended*
 4 *by adding at the end the following:*

5 **“SEC. 4.28A. DEFINITION OF BANK.**

6 *“As used in this part, the term ‘bank’ includes each*
 7 *association operating under title II.”.*

8 **SEC. 11. REQUIREMENTS FOR LOANS SOLD INTO THE SEC-**
 9 **ONDARY MARKET.**

10 *(a) BORROWER STOCK.—Section 4.3A (12 U.S.C.*
 11 *2154a) is amended—*

12 *(1) by redesignating subsections (f) and (g) as*
 13 *subsections (g) and (h), respectively; and*

14 *(2) by inserting after subsection (e) the following:*

15 *“(f) LOANS DESIGNATED FOR SALE OR SOLD INTO*
 16 *THE SECONDARY MARKET.—Notwithstanding any other*
 17 *provision of this section:*

18 *“(1) GENERAL RULE.—Subject to paragraph (2),*
 19 *the bylaws adopted by any bank or association under*
 20 *subsection (b) may provide—*

21 *“(A) for any loan made on or after the date*
 22 *of the enactment of this subsection that is des-*
 23 *ignated, at the time the loan is made, for sale*
 24 *into a secondary market under title VIII or oth-*
 25 *erwise, that no voting stock or participation cer-*

1 *tificate purchase requirement shall apply to the*
 2 *borrower of the loan; and*

3 “(B) *for any loan made before the date of*
 4 *the enactment of this subsection that is sold into*
 5 *a secondary market under title VIII or otherwise,*
 6 *that all outstanding voting stock or participa-*
 7 *tion certificates held by the borrower with respect*
 8 *to the loan shall, subject to subsection (d)(1), be*
 9 *retired.*

10 “(2) *EXCEPTION.—If a loan designated for sale*
 11 *as described in paragraph (1)(A) is not sold into a*
 12 *secondary market within 180 days after the designa-*
 13 *tion, the voting stock or participation certificate pur-*
 14 *chase requirement that would otherwise apply to the*
 15 *loan in the absence of bylaw provisions adopted under*
 16 *paragraph (1)(A) shall be effective, except that the by-*
 17 *laws may provide that if such a loan is thereafter sold*
 18 *into a secondary market, all outstanding voting stock*
 19 *or participation certificates held by the borrower with*
 20 *respect to such loan shall, subject to subsection (d)(1),*
 21 *be retired.”.*

22 ***(b) BORROWER RIGHTS.—***

23 ***(1) IN GENERAL.—****Section 4.14A(a)(5) (12*
 24 *U.S.C. 2202a(a)(5)) is amended to read as follows:*

25 ***“(5) LOAN.—***

1 “(A) *IN GENERAL.*—*The term ‘loan’ means*
2 *a loan made to a farmer, rancher, or producer*
3 *or harvester of aquatic products, for any agricul-*
4 *tural or aquatic purpose and other credit needs*
5 *of the borrower, including financing for basic*
6 *processing and marketing directly related to the*
7 *borrower’s operations and those of other eligible*
8 *farmers, ranchers, and producers or harvesters of*
9 *aquatic products.*

10 “(B) *EXCLUSION OF LOANS DESIGNATED*
11 *FOR SALE INTO A SECONDARY MARKET.*—*The*
12 *term ‘loan’ does not include a loan made on or*
13 *after the date of enactment of this subparagraph*
14 *that, at the time the loan is made, is designated*
15 *for sale into a secondary market under title VIII*
16 *or otherwise, except as provided in subparagraph*
17 *(C).*

18 “(C) *SPECIAL RULE.*—*If a loan designated*
19 *for sale into a secondary market is not sold into*
20 *a secondary market within 180 days after such*
21 *designation, the provisions of sections 4.14,*
22 *4.14A, 4.14B, 4.14C, 4.14D, and 4.36 that would*
23 *apply to the loan in the absence of subparagraph*
24 *(B) shall apply to the loan until the loan is so*
25 *sold.’’.*

1 (2) *CONFORMING AMENDMENT.*—Section 8.9(b)
 2 (12 U.S.C. 2279aa–9(b)) is amended by inserting
 3 “(as defined in section 4.14A(a)(5))” after “At the
 4 time of application for a loan”.

5 **SEC. 12. REMOVAL OF ANTIQUATED AND UNNECESSARY PA-**
 6 **PERWORK REQUIREMENTS.**

7 (a) *DISCLOSURE ON ADJUSTABLE RATE LOANS.*—Sec-
 8 tion 4.13(a)(4) (12 U.S.C. 2199(a)(4)) is amended by in-
 9 serting “, except that any regulation of the Farm Credit
 10 Administration implementing this paragraph shall include
 11 a provision permitting notice to a borrower of a change
 12 in the interest rate applicable to the borrower’s loan to be
 13 made within a reasonable time after the effective date of
 14 the change” before the semicolon.

15 (b) *COMPENSATION OF ASSOCIATION PERSONNEL.*—
 16 Section 1.5(13) (12 U.S.C. 2013(13)) is amended by strik-
 17 ing “and the appointment and compensation of the chief
 18 executive officer thereof,”.

19 (c) *JOINT MANAGEMENT AGREEMENTS.*—Section
 20 5.17(a)(2)(A) (12 U.S.C. 2252(a)(2)(A)) is amended in the
 21 1st sentence by striking “or management agreements”.

22 (d) *REMOVAL OF CERTAIN BORROWER REPORTING*
 23 *REQUIREMENTS.*—Section 1.10(a) (12 U.S.C. 2018(a)) is
 24 amended by striking paragraph (5).

25 (e) *USE OF PRIVATE MORTGAGE INSURANCE.*—

1 (1) *IN GENERAL.*—Section 1.10(a)(1) (12 U.S.C.
2 2018(a)(1)) is amended by adding at the end the fol-
3 lowing:

4 “(D) *PRIVATE MORTGAGE INSURANCE.*—
5 Loans on which private mortgage insurance is
6 obtained may exceed 85 percent of the appraised
7 value of the real estate security to the extent that
8 the loan amount in excess of such 85 percent is
9 covered by the insurance.”.

10 (2) *CONFORMING AMENDMENT.*—Section
11 1.10(a)(1)(A) (12 U.S.C. 2018(a)(1)(A)) is amended
12 by striking “paragraphs (2) and (3)” and inserting
13 “subparagraphs (C) and (D)”.

14 (f) *DISSEMINATION OF QUARTERLY REPORTS.*—Sec-
15 tion 5.17(a)(8) (12 U.S.C. 2252(a)(8)) is amended by in-
16 serting “the requirements of the Farm Credit Administra-
17 tion governing the dissemination to stockholders of quar-
18 terly reports of System institutions may not be more bur-
19 densome or costly than the requirements applicable to na-
20 tional banks, and” after “except that”.

21 **SEC. 13. REMOVAL OF GOVERNMENT CERTIFICATION RE-**
22 **QUIREMENT FOR CERTAIN PRIVATE SECTOR**
23 **FINANCING.**

24 Section 3.8(b)(1)(A) (12 U.S.C. 2129(b)(1)(A)) is
25 amended—

1 (1) by striking “have been certified by the Ad-
 2 ministrators of the Rural Electrification Administra-
 3 tion to be eligible for such” and inserting “are eligible
 4 under the Rural Electrification Act of 1936 for”; and

5 (2) by striking “loan guarantee, and” and in-
 6 serting “loan guarantee from such agencies (or their
 7 successors), and”.

8 **SEC. 14. REFORM OF REGULATORY LIMITATIONS ON THE**
 9 **DIVIDEND, MEMBER BUSINESS, AND VOTING**
 10 **PRACTICES OF ELIGIBLE FARMER-OWNED CO-**
 11 **OPERATIVES.**

12 (a) *IN GENERAL.*—Section 3.8(a) (12 U.S.C. 2129(a))
 13 is amended by adding at the end the following: “Any such
 14 association that has received a loan from a bank for co-
 15 operatives shall, without regard to the requirements of the
 16 preceding sentence, continue to be so eligible for so long as
 17 more than 50 percent (or such higher percentage as is estab-
 18 lished by the bank board) of the voting control of the asso-
 19 ciation is held by farmers, producers or harvesters of aquat-
 20 ic products, or eligible cooperative associations.”.

21 (b) *CONFORMING AMENDMENT.*—Section 3.8(b)(1)(D)
 22 (12 U.S.C. 2129(b)(1)(D)) is amended by inserting “, or
 23 under the last sentence,” after “(4)”.

1 ***SEC. 15. EXTENSION OF INTEREST RATE REDUCTION PRO-***
 2 ***GRAM FOR 5 YEARS.***

3 *Section 1320 of the Food Security Act of 1985 (7*
 4 *U.S.C. 1999 note) is amended by striking “1995” and in-*
 5 *serting “2000”.*

Amend the title so as to read: “A bill to amend the
 Farm Credit Act of 1971 to provide regulatory relief, and
 for other purposes.”.

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